

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying statement of cash receipts, disbursements and changes in cash balances of the City of Hedrick, Iowa Sewer Projects Fund as of and for the year ended June 30, 2010. These financial statements are the responsibility of the City of Hedrick, Iowa Sewer Projects Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement presents only the Sewer Projects Fund and does not purport to, and does not, present fairly the financial position of the City of Hedrick, Iowa as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City of Hedrick, Iowa Sewer Projects Fund have not been audited for all prior years.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the City of Hedrick, Iowa Sewer Projects Fund as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated March 18, 2011 on our consideration of the City of Hedrick, Iowa Sewer Projects Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2 through 3 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hedrick, Iowa Sewer Project Fund's financial statements. Other supplementary information, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
March 18, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Hedrick, Iowa Sewer Projects Fund provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Sewer Projects Fund's financial statements, which follow.

Because the Sewer Projects Fund is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Fund's financial position and results of operations.

### 2010 FINANCIAL HIGHLIGHTS

- Grant receipts of the Sewer Projects Fund were \$883,895, for the year ended June 30, 2010. In addition to grant receipts, the Sewer Projects Fund received \$495,034 in note proceeds during the year ended June 30, 2010.
- Disbursements were \$1,375,930, for the year ended June 30, 2010. Capital outlay disbursements account for all of these disbursements.
- The Sewer Projects Fund's total cash basis net assets increased \$2,999 for the year ended June 30, 2010.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Sewer Projects Fund's financial activities.

The Financial Statement tells how the fund was financed in the short term as well as what remains for future spending.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the financial statement.

Other Supplementary Information includes the Schedule of Expenditures of Federal Awards and provides details of various federal programs benefiting the Sewer Projects Fund.

### Basis of Accounting

The Sewer Projects Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Sewer Projects Fund are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

### REPORTING THE SEWER PROJECTS FUND'S FINANCIAL ACTIVITIES

#### *Fund Financial Statement*

1) Governmental funds account for most of a City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the Capital Projects Fund. The financial statement provides a detailed, short-term view of the Sewer Projects Fund's operations. Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Sewer Projects Fund's operations.

The required financial statement is a statement of cash receipts, disbursements and changes in cash balances.

## FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Sewer Projects Fund's cash balance increased to \$2,999 for the year ended June 30, 2010. The analysis that follows focuses on the changes in cash basis net assets.

### Changes in Cash Basis Net Assets

Receipts:		
Intergovernmental	\$	883,895
Note proceeds		<u>495,034</u>
Total receipts		1,378,929
Disbursements:		
Capital outlay		<u>1,375,930</u>
Change in cash basis net assets		2,999
Cash basis net assets beginning of year		<u>-</u>
Cash basis net assets end of year	\$	<u><u>2,999</u></u>

The Sewer Projects Fund's total receipts were \$1,378,929. The receipts included grant receipts and loan proceeds.

The cost of all fund activities this year was \$1,375,930 and was the result of capital outlay disbursements.

## CONTACTING THE SEWER PROJECTS FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City of Hedrick, Iowa Sewer Projects Fund's finances and to show the Sewer Projects Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hedrick City Clerk, 109 Main Street, Hedrick, Iowa.

**FINANCIAL STATEMENTS**

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
YEAR ENDED JUNE 30, 2010

Receipts:		
Intergovernmental	\$	883,895
Disbursements:		
Capital outlay		<u>1,375,930</u>
Deficiency of receipts under disbursements		(492,035)
Other financing sources:		
Note proceeds		<u>495,034</u>
Excess of receipts and other financing sources over expenditures		2,999
Balance beginning of year		_____
Balance end of year	\$	<u>2,999</u>

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hedrick, Iowa Sewer Projects Fund is a political subdivision of the State of Iowa located in Keokuk County. The City was first incorporated in 1882 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

The financial statement presents only the Capital Projects Fund and does not purport to, and does not, present fairly the financial position of the City of Hedrick, Iowa, as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Fund has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Fund are such that exclusion would cause the Fund's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Fund to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Fund.

The City of Hedrick, Iowa Sewer Projects Fund does not have any component units that meet the criteria listed in the preceding paragraph.

B. Measurement Focus and Basis of Accounting

The accounts of the City of Hedrick, Iowa Sewer Projects Fund are organized on the basis of funds, which is considered to be a separate accounting entity. The operations of the Fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The Fund and its designated purpose is as follows:

Sewer Projects Fund – The Sewer Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City of Hedrick, Iowa Sewer Projects Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Fund are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the fund in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the Sewer Project Fund funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the Fund's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

NOTE 2: CASH AND POOLED INVESTMENTS

The Fund's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 2: CASH AND POOLED INVESTMENTS (Continued)

The City of Hedrick, Iowa Sewer Projects Fund is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NOTE 3: RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were paid by the General Fund of the City and not the Sewer Projects Fund.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool reinsurance coverage since the Pool's inception.

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 3: RISK MANAGEMENT (Continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation and employee blanket bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 4: SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 18, 2011, the date the financial statements were available to be issued.

From July 1, 2010 through the date listed above, the City of Hedrick, Iowa Sewer Projects Fund has received loan proceeds of \$1,867,467 related to the ongoing sewer project.

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>
Indirect:		
U.S. Department of Housing and Urban Development:		
Iowa Department of Economic Development:		
Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	14.228	\$ 883,895
Environmental Protection Agency:		
Iowa Department of Natural Resources:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	312,714
		\$ <u>1,196,609</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Hedrick, Iowa Sewer Projects Fund and is presented in conformity with an other comprehensive basis of accounting. This information on the schedule is present in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Hedrick, Iowa Sewer Projects Fund as of and for the year ended June 30, 2010, and have issued our report thereon dated March 18, 2011. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hedrick, Iowa Sewer Projects Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hedrick, Iowa Sewer Project Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hedrick, Iowa Sewer Project Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Hedrick, Iowa Sewer Project Fund's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hedrick, Iowa Sewer Project Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

City of Hedrick, Iowa Sewer Project Fund's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Fund's responses, we did not audit City of Hedrick, Iowa Sewer Project Fund's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hedrick, Iowa and other parties to whom the City of Hedrick, Iowa Sewer Projects Fund may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hedrick, Iowa Sewer Projects Fund during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
March 18, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and  
Members of the City Council

Compliance

We have audited the compliance of the City of Hedrick, Iowa Sewer Projects Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Hedrick, Iowa Sewer Projects Fund's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Hedrick, Iowa Sewer Project Fund's management. Our responsibility is to express an opinion on the City of Hedrick, Iowa Sewer Projects Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hedrick, Iowa Sewer Projects Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hedrick, Iowa Sewer Projects Fund's compliance with those requirements.

In our opinion, the City of Hedrick, Iowa Sewer Projects Fund complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Hedrick, Iowa Sewer Projects Fund is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hedrick, Iowa Sewer Projects Fund's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Hedrick, Iowa Sewer Project Fund's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

City of Hedrick, Iowa Sewer Project Fund's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Fund's responses, we did not audit City of Hedrick, Iowa Sewer Project Fund's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hedrick, Iowa and other parties to whom the City of Hedrick, Iowa Sewer Projects Fund may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
March 18, 2011

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

PART I: SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii and 66.458 Capitalization Grants for Clear Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Hedrick, Iowa Sewer Projects Fund did not qualify as a low-risk auditee.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Internal Control Deficiencies

II-A-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the year ended June 30, 2010, the City Clerk had control over each of the following areas for the City of Hedrick, Iowa Sewer Projects Fund:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling and recording.
- (3) Receipts – collecting, depositing and posting.
- (4) Disbursements – purchasing, preparing checks and recording.

Recommendation

We realize that with the small size of the City, segregation of duties is difficult. However, the City of Hedrick, Iowa Sewer Projects Fund should review its operating procedures to obtain the maximum internal control possible under the circumstances. The Fund should consider involving City Council members.

Response

We will consider the above recommendations.

CITY OF HEDRICK, IOWA  
SEWER PROJECTS FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (Continued)

Conclusion

Response accepted. ,

Instances of Non-Compliance

No matters were noted.

PART III: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

Reportable Condition

66.458 Capitalization Grants for Clean Water State Revolving Funds

Federal Award Year: 2010

Environmental Protection Agency passed through the Iowa Department of Natural Resources

CFDA Number 14.228 Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii

Federal Award Year: 2010

Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development

III-A-10 Segregation of Duties Over Federal Receipts and Disbursements – The City of Hedrick, Iowa Sewer Projects Fund did not properly segregate collection, deposit and record-keeping for receipts and authorization, payment and record-keeping for disbursements, including those related to federal programs. See item II-A-10.

Instances of Non-Compliance

No matters were noted.